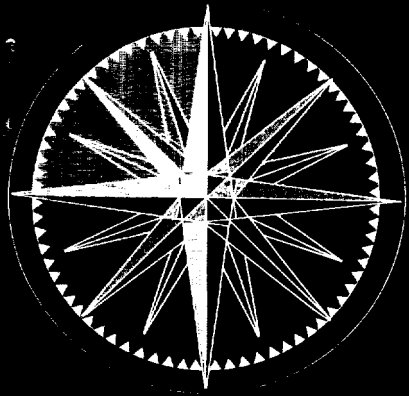


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SPECIAL REPORT

REFORM IN IRAN: PROGRESS AND PROSPECTS

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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REFORM IN IRAN: PROGRESS AND PROSPECTS

For over two years the Shah has been trying to effect fundamental economic and political reforms in Iran, with the primary aim of building a broad popular base for his regime. The most dramatic changes are occurring in the traditional system of land tenure, as villages are taken from individual owners and distributed among the peasants. The program, as expected, is alienating the Shah's supporters among the wealthy classes, whose influence in the country's administration has not lessened significantly. Moreover, the Shah has not yet achieved his desired mass political support; peasants still lack effective instruments to register their approval of his program, and the urban population is skeptical of his motives. Disruptions brought on by the reforms meanwhile threaten an economic crisis and a possible reversal of what he terms his "White Revolution."

Beginning of Reform Program

Three years ago the Shah became convinced that he could not indefinitely maintain his regime on the traditional feudal system. Apart from the minority of Iranians living in the few large cities, most of his people were impoverished peasants working fields owned by absentee landlords.

The Shah dismissed the landlord-dominated parliament, instituted rule by decree, and launched his broad program of reforms, with primary emphasis on land redistribution. A well-managed referendum in January 1963 provided the legal trappings of overwhelming popular approval.

Phases of Land Reform

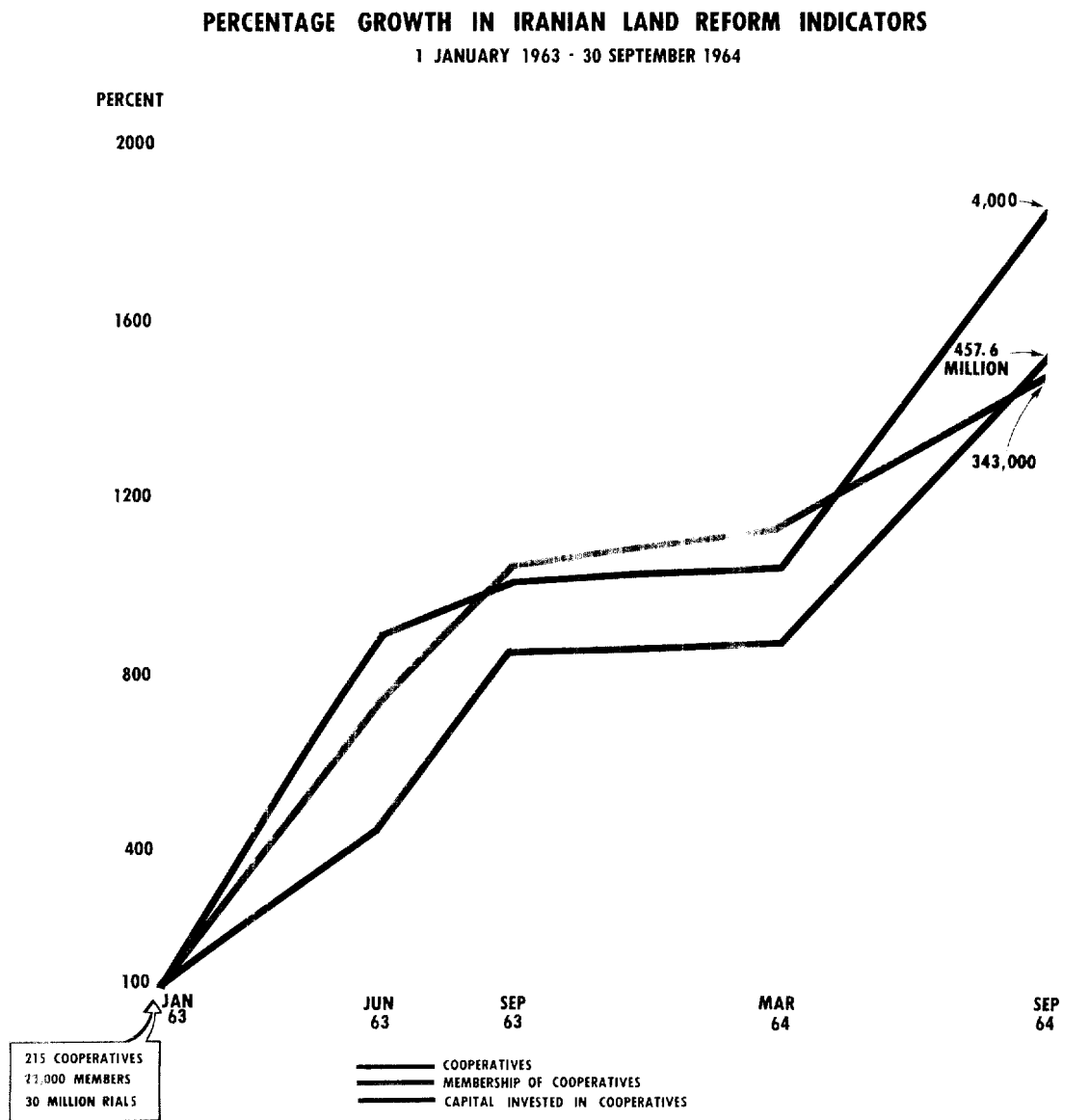
The country now is in the second of two phases of a land

reform program that eventually is to affect all of Iran's 50,000 villages. Some 75 percent of Iran's 23.2 million people live in these villages.

Reform initially was put on a crash basis, driven forward by the dynamic minister of agriculture, Hassan Arsanjani. Within two years nearly 10,000 villages which formed part of the largest holdings were redistributed to more than 340,000 peasants. This phase fell some 25 percent short of its goal, partly because the Shah dismissed Arsanjani in March 1963 when the drive seemed to be getting out of hand and Arsanjani's popularity threatened to exceed the Shah's. Arsanjani's successor, a professional military man, proceeded in a more cautious manner.

A second phase, begun last October, is aimed at smaller holdings. Scheduled to be

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completed in two years, it is to affect some 25,000 additional villages. It is potentially more disruptive than the initial phase, as it involves lands generally held by resident owners, who have dealt closely with the peasants' needs. These owners depend directly--often exclusively--on their lands for their somewhat preferred economic status, and they are determined to retain as much as possible. The government is trying to protect the legal rights of both landlords and peasants. Resistance to the government's plans and possible discontent with the slow pace of reform is tacitly acknowledged by official pronouncements, almost all of which stress that lawlessness will not be tolerated.

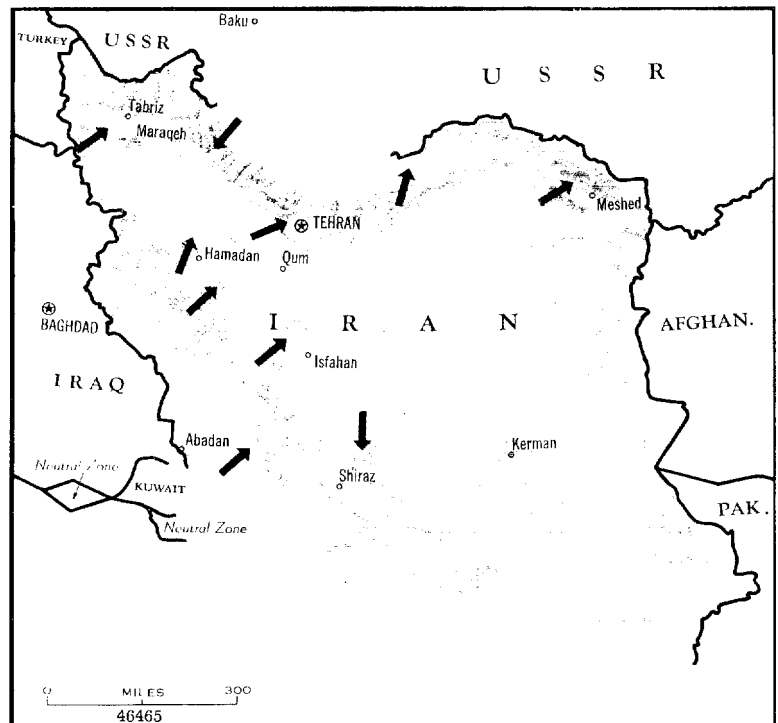
The government is assuming the landlords' former role in distributing seed, extending credit, providing agricultural tools, and maintaining irrigation systems. Tehran also has organized some 4,000 rural cooperatives to aid the new owners, but these farmers must work out their own informal arrangements for work and crop distribution.

The government is also trying to combat illiteracy and the lack of skilled personnel by sending urban young men with at least a high school education into the villages for one-year periods in lieu of military service. An estimated 10,000 members of this so-called Literacy Corps have

already been assigned. Early next year a Health Corps is scheduled to take to the field, and late in the year an Extension and Development Corps designed to encourage better farming practices is to follow.

In addition to land reform, forests have been nationalized--a move that has affected few people and has had little political significance. Profit-sharing has been decreed for workers in industry but only token compliance on the part of employers has been required.

If a revolution is measured by the extent it disrupts



Areas of Land Reform Activity - 1 September 1964

Areas of land reform activity	Swamp
Cultivated area	Salt waste
Forest area	Intermittent lake

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established patterns, the Shah's reforms are successful. At this interim stage of its execution, however, the problems threaten to smother the achievements.

Human Problems

Human factors constitute the major impediment. Some landlords saw the revolution coming several years ago; they started removing their assets from the villages and allowing irrigation systems to fall into disrepair. There is concern that other landlords in anticipation of the redistribution of their lands will stop furnishing seed and other necessities to the peasants.

Peasants, for their part, are not easily adjusting to their new responsibilities. They remain a largely inert mass accustomed to carrying out orders and with little or no individual initiative. Communication to impress them with their new position is difficult because of their limited outlook and general illiteracy. The program is more likely to arouse their expectations of great benefits than to equip them with the means of realizing them. In the current transition period, any failure by the landlords to exercise their accustomed function is likely to be aggravated by peasants' refusal to play their part in the traditional pattern.

The slowing down of the land redistribution partly reflects

Tehran's concern lest the peasants become overenthusiastic in anticipating a new era. Some officials also fear that the city youth manning the Literacy Corps will not only teach the peasants to read but also plant radical ideas in the villages.

Special problems are faced in border areas inhabited by Arabs and Kurds. Priority has been accorded projects for social, as well as economic, development to complement land reform along the western border. The government has faced an increasing security problem in the northwest and southwest in the form of disturbances over food shortages and rising banditry.

Economic Repercussions

With traditional agricultural procedures disrupted in a country already lacking adequate transportation and marketing facilities, the flow of food to the cities is easily upset by any natural difficulties, such as this year's drought. Prices are rising as a result. When Tehran carries out its plans for mechanizing farming, more rural workers will migrate to the cities and aggravate urban discontent. Even now, available land could be cultivated by an estimated 25 percent fewer people.

Dispersal of funds to the cooperatives is proving burdensome, complicated, and expensive because of the myriad of guarantors necessary to secure a loan. According to some land reform officials, local village officers

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and the peasants themselves often squander government funds for consumer goods and religious pilgrimages. In order to meet the required modest payments for the land they are acquiring, the new peasant owners are in some cases forced to turn to former landlords or moneylenders for credit at exorbitant interest rates and may soon find their land taken from them under foreclosure. In the troubled Kurdish regions in the northwest, Tehran has already banned any foreclosures for failure to meet payments under the first land reform stage.

The uncertainties accompanying land reform have depressed private investment and business activity. The prime minister has exhorted the business community to maintain its previous rate of investments and has implied that otherwise the government will become even more directly involved in business. Tehran now is considering a new tighter commercial code, the establishment of a government-regulated stock exchange, and a law to control banking activities more closely than in the past.

The government's performance has not raised confidence. Recently within a six-month period, the government first abolished the official monopoly on sugar imports so as to allow private enterprise to enter this lucrative field, and then reversed this action when it was unable to dispose of reserves previously acquired at high

prices. Tehran recently raised consumer taxes on petroleum and other products--including kerosene, a vital commodity in Iran--thus adding to inflationary pressures in the cities.

Political Impact

As the reform program got under way, the Shah gradually attempted to construct the elements of political support by reconvening parliament and promoting a party that would mobilize popular backing for his policies.

Parliamentary elections were held in September 1963 under universal adult franchise that gave women the vote for the first time. The hand-picked legislators come largely from the upper and upper-middle class professionals, administrators, and businessmen. All pledged at least nominal support of the "White Revolution." In March, Hasan Ali Mansur, a wealthy and ambitious scion of the upper class, took office as prime minister. He has carried forward the reforms within the parliamentary framework at a deliberate pace.

The Shah's chosen political instrument at present is the New Iran Party, nominally headed by Mansur. This grew out of a group of well-to-do businessmen, professors, and administrators formed in early 1963 to study Iran's social and economic problems with the eventual aim of entering the political forum. Some 40 of the group were elected to parliament that year; the

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party was formally organized and named in late 1963, and with an expanded membership it became the majority party in parliament. It now controls 140 out of 189 occupied seats.

The New Iran Party appears to be trying to remain an elite organization. It is simultaneously trying to expand its base by recruiting "associate members" among trade unions, guilds, and agricultural cooperatives. Many of these "members" learn of their status only after they have been enrolled.

Mansur has a long way to go to establish a genuine popular political base for the regime. The New Iran Party has not succeeded in gaining widespread support in the provinces. Peasants and townsmen have responded apathetically to Mansur's extensive tours in an attempt to stimulate enthusiasm for his government and the Shah's "revolution." His latest provincial visit was marked by a perfunctory response on the part of welcoming crowds of school children, organized workers, and tribal and village leaders.

The Shah has not allowed much leeway to the parliament. Its limited power continues to lie in an ability to delay and modify legislation. Discussion of controversial issues is generally muzzled. It accepts orders from the Shah when they are clear and unequivocally passed down.

With the Shah still personally dominating the government,

political devices meet with apathy. The skeptical Iranians have seen the failure of previous attempts to set up nationwide political parties. The New Iran Party is widely thought of as a collection of office holders and office seekers. The party has notably failed to attract the support of Iran's small educated middle class, the group most important to the country's future development.

Efforts to give the peasants a means of political expression on the national level are barely starting. As a first step, the election of village councils is now authorized. About 3,000 villages have held elections.

Opposition

Overt opposition to the Mansur government and the Shah's regime comes primarily from the loosely organized National Front and its affiliates--drawn mainly from aggrieved elements of the urban middle class and the intelligentsia. Former premier Mohammed Mosadeq, still a symbol of radical nationalism in Iran, is the titular leader. The front's goals are vaguely defined, however, and there is internal agreement only on opposition to the Shah's regime. The Shah's espousal of reforms has thrown the Front on the defensive, and it can only question his sincerity in intending to carry them through and the means he is using. As the front boycotted the 1963 elections, it claims no members of parliament.

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The nationalists' most powerful agents are students who through demonstrations can exert pressure on the government. Some officials fear that participation in the Literacy Corps and other proposed service projects may add to student radicalism.

Among some of the National Front's affiliates there is a trend toward championing the violent overthrow of the government. These elements apparently are making common cause with religious leaders who feel that the reform program is undercutting their traditional power base. In the past these religious figures have frequently shown an ability to stir the masses to protest demonstrations and violence. Some tribal leaders in the south have also been disturbed by the land reform plans, which threaten to cut off their traditional source of support. Their resentment--in addition to general poverty--may have caused the tribal disorders of the past two years.

The landed elite and the small landlords have been partially alienated from the regime. While their influence remains strong, they are disorganized at present and probably have no effective means of opposing the Shah except to hamper reforms.

The illegal Communist (Tudeh) Party, penetrated and harassed by the security service, is of little consequence, but would re-emerge if circumstances became more favorable.

Current Situation and Outlook

The cloudy economic prospects of the reform program are further dimmed at the moment by an especially bad run of weather. A severe drought this year has cut the wheat crop; the resultant need to import unusually large quantities of wheat has forced the government to dip deeply into the country's foreign exchange reserves. Feed grains are also in short supply, and the slaughter of livestock to avoid losses through starvation will cause future meat shortages and higher prices. The 1965 winter wheat crop has also suffered because of delays in distributing seed.

In political terms, the Shah is far from achieving a transformation. His power base is narrow. The regime continues to rest on the active allegiance of senior officers in the armed forces, on traditional Iranian respect for the monarchy, and on the passive support of the social elite. While the Shah awaits the development and organization of peasant support, control of security forces and other instruments

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of authority keep his regime beyond any immediate threat.

Forces calling for greater assertion of Iranian "independence," although feeble, are ready to exploit opportunities. Last month, for example, a government bill on the status of US forces in Iran ran into strong objections. The nationalist opposition successfully played on neutralist sentiments by fostering fears among legislators that the bill involved "capitulations"--limitations on Iranian sovereignty by a foreign power.

In the immediate future the Shah may well face a mounting economic crisis. This would give his regime a choice between finding some new devices to stem inflation, restore business confidence, and redress the drain of foreign exchange, or calling a halt to major aspects of his revolution. At best, Iran appears headed for slower implementation of his program if no crisis diverts it entirely. (CONFIDENTIAL)

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